



Advice paper Feb 2017

**On the Allocation Model for
Funding Higher Education Institutions
in Ireland**

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The views and opinions expressed in this submission are our own,
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Key points

We make the following observations in response to the questions asked, brevity necessitates excluding references and data sources, they are available on request.

- The Irish HEI system is at the heart of the social and economic progress that Ireland has sustained since the late 1950s, and we need to continue to be ambitious and thoughtful around the sector in order to sustain and grow our society.
- Internationally the system is distinctive in having a high devolved organisational structure, with limited central oversight, evaluation, control or coordination. This has yielded strong independent high-performing institutions, built out from academic curiosity ; but it is probably necessary to rebalance the system with a stronger system perspective.
- The binary system, a central tenant of the 1960s reforms has outlived its usefulness and now only exists in the funding and legislative structure, with stakeholders not making a distinction between the two dominant institutional forms.
- The complexity, density and unchanging nature of funding schemes has led to system inequity, poor incentivisation and governance. In particular we advocate for a restoration of the strong student led funding model, transparent centralised capital planning and more comparative reporting systems at the centre.
- Financial planning needs to take account of the national funding environment; particularly the highly pro-cyclical nature of the economy. Flexibility needs to be maintained by resisting the strong desire from within the system for multi-annual funding and the incorporation of capital funding into recurring income.

Q 1: Core Principles

Please comment on the appropriateness of the proposed principles, and whether any alternative or additional principles are required in order to underpin the future funding model?

The scoping paper offers a strong articulation of the current institutional pressures that surround budget creation in the higher education sector, but in not offering a view on how these institutional pressures are to relate to each other, how the various paradoxes and contradictions between the various principles are to be held in tension; the principles stand for everything, and thus are liable to fall for everything.

In marked contrast to other higher education's systems, the Irish model has eschewed much of the infrastructure of national coordination in favour of strong and radical institutional autonomy. Despite new central initiatives over the past decade, the centre of gravity of planning is at the institutional level with limited articulation of national level vision and ambition. Government level system planning goes beyond articulating the views of Government as a central HE stakeholder, Government's tend to comprehensively marshal other stakeholder's priorities- and as this work is not currently done in the Irish system, institutions often impute stakeholder priorities as they plan and organise.

This very distinctive feature of Irish higher education has yielded vibrant, dynamic, independent and strong institutions; at a cost of system efficiency and responsiveness to economic, societal and political stakeholders. With per annum system costs of €2.3bn (2013/4), largely drawn from Irish exchequer funds (€1.3bn) and Irish social payments (€0.6bn) a principle of institutional autonomy needs to be balanced with a clearer articulation of institutions accountability to the economy, society and the polity that supports them.

A statement of principles should articulate clearly how to balance the natural desire for independent seats of learning with an appropriate system accountability, efficiency, evaluation and stakeholder responsiveness to ward off any drive towards sclerotic self-interest from within the institutions. Most international higher education systems articulate a definitive list of higher education freedoms- capacities that resolutely sit at the institutional level, but bounded by system level responsibilities.

Q 2: Facilitating Planning and Longer- term Certainty

How should the higher education funding model facilitate longer - term planning? Should a multi –annual approach be adopted to the block grant, performance compacts or targeted competitive funding? If so, how could this be achieved ?

There is a deficit in both long term planning and financial planning within the HEI system and the institutions, both deficits need to be addressed, but not conflated.

Long-term financial planning

While the attractions of long term planning are intuitive, the risks of abandoning the battle-hardened, good-sense of the existing funding horizons used in Irish HE requires some explaining. The Irish economy is a small and open, and over time the state has learned the hard lesson that it must be responsively pro-cyclical, best understood by a former Minister for Finance’s maxim ‘when I have it I spend it’. Simply put, the Irish economy is too small to fund a proper Keynesian stimulus, and too open for a Keynesian stimulus to usefully feed into the Irish economy. So, for more than half of the past fifty years the state has had a recruitment and capital moratoriums in effect in the HE sector. It is thus entirely foreseeable that over the lifetime of this funding allocation model, the Irish state is likely to suffer several funding shocks, some mild (such as the 2001 pause), some profound (like 2007 crisis) and these funding shocks will be fed into the higher education system. So any move towards long-term financial planning within the HE sector needs to closely follow the contours of the state’s overall funding approach.

Motivating the call for multi-annual budgeting is the stealthy accumulation of debt within the university sector over the past half decade. This off-balance sheet lending is implicitly underwritten by the state, and the borrowing institutions have a natural desire to de-risk these long-term liabilities by gaining assurances on their income. The case of WIT’s Carriganore development is illustrative of this risk built up in the system- whereby WIT entered into loans based on anticipated future income, during the 2007 crisis the state changed the rules around that income and ultimately had to stand behind the loans. Whilst the development was of the order of €10-15million, individual HEIs have entered into debt obligations of multiple times that, and these long-term liabilities have added significantly to the risk when the state only offers short term funding comfort. Having put themselves into this position, institutions now risk their overall autonomy as they risk insolvency.

Actual long-term planning

Long-term planning within the Irish HE sector is very weak, and is almost totally conflated with financial planning. While it is true that a plan without finance is no plan at all, they are not the same thing. The Irish higher education system should distinguish between short term planning and long term profiling. Short term planning, is really the only form of planning undertaken by Irish institutions, focused on day-to-day institutional organising built around meeting contractual obligations and programming the institutions resources. Typically this form of short-term planning has little stakeholder involvement as the scope of what is possible is narrow. Long term profiling is associated with long term vision and articulation into educational challenges, and this should emerge from continuous dialog within the HEI system with the totality of stakeholders. Current management, budgeting and governance practices within institutions, and absence of a strong central voice in Irish higher education means that our institutions planning is operational, territorial and tactical, rather than long-term, ambitious, visionary and strategic.

3) Responding to Student Demand

Does a student driven funding model remain valid? If so, in what ways does it need to adapt in order to reflect the evolving challenges faced by higher education and wider economy and society? If not, is there a more appropriate alternative approach? How do you balance the need to accommodate significant future student demand with the limited funding available? Would introducing a graduate or credits based element to the system improve the focus on outcomes?

A student driven funding model remains valid, but requires rehabilitation.

Rehabilitating a student driven funding model

For all its imperfections a student driven funding model is perhaps the most equitable way of funding HE, and is most suited to the Irish context. The original architecture of funding in all Irish education provision is student driven, but in the absence of central administration along with the gentle accumulation of other funding schemes in HE it has become muddled and gerrymandered. The core components of rehabilitating the model are

- Weaning institutions off of the block grant. Since the 1970s, with a few modest exceptions around the emergence of three new universities, the block grant has proven almost impossible to reform, adjust or rebalance and so is now no longer fit for purpose.
- Strengthening the informer buyer's hand is the best defence against perverse excess of such models. Measures to address the information asymmetry that has built up over the past two decades needs to be addressed. All institutions and programmes should be formally evaluating in a way that facilitates comparisons (such as the UK's Unistats system). Existing quality evaluations and outcome reporting need to be made accessible, the school guidance councillor service needs to be strengthened, opened up to mature/life-long learners seeking decision-making help and further professionalised. Data, modelling and foresight studies on the labour market need to be connected to the CAO decision makers. Of considerable use would be adding an additional year to the secondary cycle so that traditional learners would have a little more maturity when making their HE choices. All of this needs to be underpinned by stronger regulation of the marketing activities of HEIs.
- Regulating the CAO market so that institutions do not have to engage in the balkanisation of disciplines, off-market transactions and conflation of CAO points with academic quality. The rationing of higher education is driven through the CAO system, and if the aspiration is to ensure social mobility, teaching excellence and student choice their needs to be basic regulation of the market.
- It is challenging to support institutional capacity building and disadvantaged access using a pure student driven model.

Alternatives

The primary alternative is a centrally planned supply of higher education system, devised around regional and national level priorities. This approach has some traction in the Irish system, particularly where the government is the sole graduate employer (in certain healthcare, policing and education programmes), or short term labour activation measures (such as springboard). In this approach a reverse tendering scheme between funders and the institutions is perhaps the most equitable solution. Ireland has well-developed industrial and economic research and planning mechanisms that facilitates such an approach. The real risk is through denying student choice the state takes on ever greater responsibility for organising the labour market- it would be interesting to see how such a system would have fared in the construction crisis.

Q4. The Overall Approach to Funding Allocation

Is this overall approach to the allocation of funding appropriate? If not, how should it evolve to ensure that it reflects the costs of provision and maximises performance in a fair and transparent manner in line with the proposed core principles? (max 500 words)

The current system for funding allocation is no longer fit for purpose as it presents an agglomeration of improvised systems, broadly organised to maintain existing institutional relativities.

At the heart of the existing conceptual thinking about budgets is an unexplored faith in the binary system. Given the significance of the binary system to the operation of Irish higher education, it is surprising that we cannot find any theory or research to support its perpetuation.

The current funding allocation system is faithful to its 1960s origins, a time with a uniquely strong vision for the place of education in Irish society and the economy drawn directly for TK Whitiker. Central to that vision (articulated in documents such as the 1967 Steering Committee report/Mulcahy) was around producing a system of higher education that would support Irish economy and society. Central to that was developing a strong technical/skills based education system to support the emerging MNC sector and strengthen indigenous industry as the economy opened up to external competition. In broad brush strokes- the regional technical college system was designed to produce blue collar skilled factory workers and the renewed, secularized and massified universities that emerged in the 1980s were repurposed to produce white collar labour- professional, managerial, and senior employees. Behind the vision for a vibrant higher education system at the service of the economy was to produce a sustainable and stable society. Given the education led transformation of Irish society since the 1960s, the original design principles were very successful.

Since the 1960s Irish society and economy has changed beyond all recognition. The strong social demarcations at the heart of the binary system have dissolved- so class, urban/rural, race, creed and gender are no longer the primary discriminations in Irish society. With average incomes in Ireland above €37k (source: CAO 2015) the distinction between blue and white collar work has been washed away by the economic imperative for all work to be highly productive knowledge work. Employers on the milkround and in the general labour market, in their search for competence make no distinction between the two systems when employing graduates. Students on their CAO applications mingle their preferences across the binary divide. QQI who assure standards of Irish higher education make no distinction between the quality of awards across the binary divide. Irish HEIs have led and responded to the huge economic and societal transformation. The institutions make no distinction in how they interpret their mission and scope of activities, responding to isomorphic pressure the IoTs now have vibrant PhD programmes, world class research centres and research driven teaching; Universities have adopted more practice led teaching methodologies, work-placement and skills based training type education.

When the IoT sector was moved into the HEA in 2006/7 it was envisaged that the two budget pools, would over time be merged, recognising that the central distinction of the binary system that had eroded away by social and economic progress. There was a natural expectation that the budget equalisation/harmonisation process that had seen the new Universities of Limerick, Dublin City and Maynooth would be extended to the IoT sector. So while the logic behind the binary system has eroded away, and all stakeholders have broadly accepted the new institutional dispensation, the rigidity of the funding allocation, and the special interests that protect it is the great challenge in higher education.

Q 5: The Role of Capital Funding

Is there a case for an annual ongoing capital contribution to HEIs to ensure that infrastructure can be maintained and renewed? If so, how should this be determined?

The attractions of regularising capital funding into the recurrent funding model of HEIs has obvious attractions around smoothing out the development of institutions and meeting the debt obligations already taken on at institutional level. But it will reduce system flexibility and resilience as more of the overall HE funding becomes committed. It also gives the state considerable flexibility; it can be increased and decreased in response to the economic cycle. This flexibility could be lost if the funding becomes part of an annual allocation. To some extent, this has already happened in the university sector where borrowing has risen from €250m to €750m over the past two years (parsing between the most recent financial statements and the recent EIB announcements). The terms and conditions of these loans are not in the public domain, although Trinity is paying 1.9% on one of its loans (arranged in 2016, over 30 years). These terms would indicate that the state is acting as guarantor in the event that the institution is unable to repay. Against this system for the university sector, the IoT sector is not permitted to borrow. Capital funding is much more tightly constrained and controlled through the HEA. The Irish universities have not recovered from the reduction in funding from Atlantic Philanthropies which had provided €690m¹ to meet the capital needs of the sector. In recent times, the sector has turned to the European Investment Bank (EIB) for funding with deals of over €500m² signed. The difference is that the EIB funding must be repaid; both interest and capital. This is a model of capital³ funding that the universities have limited experience of; particularly, on this scale. If these loans are to be repaid over 10 years at an interest rate of 2% then it is likely that the repayments⁴ would exceed 4% of annual income⁴. With the sector currently suffering from a funding deficit, it is unclear how the various institutions will be able to repay these loans. It appears that the capital ambitions of the universities have become embedded in their expenditure model⁵ by stealth with limited oversight. However, there is limited public transparency on the decision to prioritise projects in one institution over another.

Capital projects benefit from central knowledge and expertise, and so project execution from the centralised buildings unit should be superior to institutional building offices. Unchecked institutional development plans with little oversight, evaluation, need analysis and basic cost/benefit/use

¹ Irish Times 3/1/2017

² Source: EIB Press Releases (various) that apply to Irish HEI's from 17/11/2011 to 14/12/2016. However, 5 of the 7 announcements were in 2016 and 2017. This amount represents the EIB's contribution, the full value of the deals are in excess of €1billion

³ Source: Most recently published financial statements of the 7 universities – as per their website. Given the delays in publication, the periods used were a mix of 30/9/2014 and 30/9/2015.

⁴ These guidelines are from the Governance of Irish Universities 2012, appendix C. Analysis on a cumulative basis for the sector as a whole – individual analysis not possible due to lack of available information. Interest rate is an estimate based on the rate disclosed by Trinity.

⁵ Although outside the scope of this section, this further exacerbates the funding deficit in the future thereby buttressing the claim for a student fee/loan system. Based on this type of behaviour by the universities and with limited critical oversight, a student loan/fee system could result in many intended and inefficient outcomes.

analysis risk the stability of the sector. There is a strong risk that allocated amounts will become subsumed into general income. Thus we advocate renewing and strengthening the current system of capital allocations to improve transparency, prioritisation and accountability.

The Vision – some suggestions

1. There needs to be a more systematic approach to capital funding of projects based on the needs and objectives of the HE system, not those of individual institutions.
2. The process of capital funding allocations should be transparent and accountable. How and why some projects are prioritised over all others needs to be clearly articulated. The cost of the project, the impact of the project, the value for money of the project, the need etc. are some of the criteria that can be used. Whilst, it is impossible to construct a truly independent process, it is important that the process has the confidence of all parties and is not subject to lobbying.
3. Using the universities as a means of keeping debt off the state's books needs much more careful analysis. This goes beyond institutional autonomy; the incentives and governance structures of these institutions may result in behaviour that might lead to poor societal outcomes.
4. Rather than use complicated formula to penalise and reward institutions for their performance, there is considerable attraction in using capital funding as a system incentive. The difficulty with using current funding as a carrot/stick is that poorly performing institutions are penalised further and are not provided with the wherewithal to deal with their problems. Using capital funding as the incentive, poorly performing institutions can be penalised by having some of their projects pushed down a list (the opposite for better performing institutions). This will be a real tangible, physical impact of performance yet it will not result in the institution being further starved of funds to run its day to day operations.

Data/Analysis Required

1. Gather the capital investment plans of all the HEI's. Perform a prioritisation analysis of the various projects.
2. The debt of the universities is now significant. This will need to be managed at a system level. Gather the terms, conditions, payment schedules of all the obligations that the system has entered into (including finance and operating leases). This will provide visibility on the obligations of the system and may help inform future appetite for capital allocations.

Q 6: Incentivising and Rewarding Performance

HE is a complex activity (much more so than corporate activity) with many competing and contradictory objectives. For a transparent system of measuring, incentivising and rewarding institutional performance to work, then the system objectives need to be clearly articulated. Whilst, some effort has been made at this, there is a lack of specificity in outcomes and the contribution that each institution should make to each outcome is unclear. The application of corporate techniques of control to higher education is a dangerous approach and greater evidence (beyond anecdotes) needs to be established on its impact.

This section is assuming that the system in existence prior to the mission compacts did not achieve 'system objectives'. More convincing evidence needs to be provided to make this case.

Perhaps, a more directed approach to improve performance can be established rather than an indirect and difficult to navigate system of mission compacts. It should also be noted that the mission compacts do also incur a cost; in terms of management time, administrative effort and systems development.

A more directed approach is a system of management by exception and would involve more direct intervention by the HEA. This is the approach taken in the corporate world when an operating unit does not perform as expected. Whilst this may not be 'culturally acceptable' to both the HEA and the institutions; institutional autonomy also brings associated responsibilities.

What is the appropriate mechanism to support institutional performance in respect of national policy objectives?

The appropriate mechanism to support national policy objectives needs to begin with clear national policy objectives that are measurable with each institution's contribution to each objective clearly established.

The negotiation of each institution's contribution needs to be carried out in a transparent manner.

Does the combination of block, top slices provide an appropriate balance between institution autonomy and accountability for performance? Should distinct rewards and penalties be part of the system?

Top slicing grants etc. is not an ideal approach as it can create too much uncertainty, gaming of the system and inter-institutional suspicion. To date the approach employed involved taking funding from institutions and then the institutions were 'invited' to 'win' their funding back. This

creates considerable difficulty as the funding that is 'won' only ensures that the institution stands still. If there is to be a reward system then it should be applied to new funding as the level of funding to higher education increases.

However, a more fundamental analysis is required - the link between managerial effectiveness and performance against metrics is, at best, indirect. Furthermore, the incentive effect of additional funding is unproven; does the carrot of additional funding result in better management, particularly where the remuneration of senior management in higher education is fixed?

Is there scope for a more outcome approach to funding?

This has been alluded to above

1. Clearly defined and measurable outcomes at a system level
2. Transparent approach to identifying each institutions contribution to their portion of the system level outcomes
3. A more direct approach to intervening when an institution is not performing. This should involve a withdrawal of some institutional autonomy (an IMF/EU Commission/ECB style approach). This would act as a much greater level of motivation over senior management of HEI's. The threat/incentive of a public babysitting service on senior management and governing body of a HEI could have a much greater impact than the complex and disparate metrics in the mission compacts.

How should we measure and reward performance

Like any 'good' student we will not answer this question; at least, not directly. The metrics for measuring these activities are well established. So too are the problems associated with an over-reliance on metrics.

Of greater importance will be the need for the HEA to be vigilant to ensure that any system of metric-based performance management is not gamed by the institutions. There will need to be a clear link between the measures and actual performance; for example, improved performance on a metric could be due to better reporting which has no real impact. Also, as metric based performance systems become embedded there is a danger that the institutions become overly metric driven to the detriment of other aspects of the system.

At a micro level:

- Are some metrics more important than others? How is this reflected in the measurement system – should research and innovation metrics be more important than access and retention metrics (and if so by how much)?

- Can metrics be established that can be measured consistently and transparently across the various HEI's – this will be important for trust in the system?
- Do the metrics allow robust conclusions regarding relative performance to be arrived at? In many cases this is problematic – how much allowance should be given to the individual circumstances of each HEI (there is always an excuse)?

A final word on incentivisation and reward

What has worked in the past to increase activity in the Irish HE system?

The approach to research funding by SFI has resulted in directed and prioritised research activities. Springboard has resulted in programmes in areas of skill shortages being delivered to a cohort of society that need them (although Springboard is not without its problems).

Academics and others in HEI's will focus their activities where they see a direct link to funding. If the link is indirect (via a plethora of metrics at institutional level) then the motivational impact on actual activity may be low.

A strategic programme based approach using new funding in targeted areas of activity may be a lot more effective than a system of metric driven performance measurement.

Q7. Reflecting Relative Costs across Disciplines

Should there be direct alignment between the higher education institution allocation and the relative costs of different aspects of provision? Should this be reflected in the funding available via the RGAM only; the RGAM and free fees payment; or the RGAM, free fees payment and student contribution combined? Is the cost of postgraduate provision addressed appropriately within the existing funding approach? (max 500 words)

On the one hand, these weightings may interfere with the autonomy of HEIs and may work against the goal of having HEIs differentiate themselves as all HEIs may be incentivised into disciplines with greater weightings. On the other hand, it is giving too much autonomy to HEIs as they may choose to 'overload' on some disciplines at the expense of others and this may mean that the goals of HEIs may be misaligned with governmental and societal objectives.

Although there may be some correlation between the costs of some disciplines and the objectives of government (e.g. STEM subjects), it is unlikely to be perfectly aligned and one wonders whether the weightings should more directly account for the skills needed by industries and society rather than simply costs in order to avoid the agency issue arising from over-incentivising high-cost disciplines. There may be some merit in providing limits on the number of students in each institute to which the higher weightings apply. This, or an alternative such as a sliding scale, would also address another issue with the current weighting, i.e. they do not take account of economies of scale. Furthermore, a discrete system with only four weightings appears somewhat crude. If discipline-specific weightings are to be retained, such weightings should be derived from a cost analysis based on international practise. Alternatively, one could have a system where the block grant is identical for all disciplines and HEIs can apply to the HEA, justifying the additional costs of certain disciplines.

Given the lags involved in responding to significant shifts in the need or demand for certain disciplines a mechanism would be needed to prevent short-term funding implications of a shift in the preferences of the government and any resulting alteration to the weightings. Any funding model that fails to account for these risks will tend to favour larger institutions with a broader spectrum of subject-area expertise.

Q8 & Q9 unaddressed

Q 10. The funding model as a tool to support good governance

Should there be a link between the funding model and levels of Governance compliance and, if so, what is the most appropriate means of achieving this?

Whilst ensuring governance, compliance is a critical element of the HEA's responsibility over the sector, the HEA should use mechanisms other than the funding model to ensure compliance.

If the HEA is unable to achieve compliance then this could be considered to be an abuse of institutional autonomy. This assumes that the governance regulations are reasonable and that any lack of compliance has a potentially material impact.

A system that links governance compliance to funding makes an already complicated funding model even more complex. Once an agreed governance framework exists then compliance should be expected and the reasons for any non-compliance should be clearly explained.

Governance does come at a cost. This may need to be reflected in the funding allocations. Typically, governance is a fixed cost that is independent of the size of the institution. This may need to be allocated using clearly hypothecated funds to ensure that the smaller institutions are capable of meeting their governance obligations.

It does give rise to some concern that this question needs to be asked – as the main funding provider (using public funds), it would be expected that the HEA can use its dominant position to ensure compliance with governance regulations.

If not, what alternative methods should be used to ensure good governance in institutions?

Institutions that fail to comply with governance regulations should be dealt with directly by the HEA rather than using an indirect funding incentive.

Whilst codes of governance do exist, based on the nature of the question and Higher Education System Performance 2014-16 (Appendix A), there does appear to be some slippage.

The codes of governance for both the IoT's and Universities are 67 pages long (in contrast the current UK (and Irish) Corporate Governance Code is 37 pages long and, within this, the main provisions of the code are contained in 17 pages. An exercise to distil the code down to its key elements might be beneficial.

However, of greater significance is the lack of a prescribed set of sanctions for those HEI's that do not comply with the code. The UK Corporate Governance Code uses a 'comply or explain' approach. Although, recently, this approach has come in for some criticism. However, the transposition of this type of a system to HEI's might only have limited impact as HEI's do not have to adhere to the scrutiny of the financial

markets. For example, it is not clear what the impact of the publication of Appendix A in the Higher Education System Performance 2014-16 has had on the more errant institutions.

The development of a transparent mechanism to resolve governance breaches with a clear pathway of escalation might help to provide clarity and ensure better compliance. This pathway of escalation need not necessarily involve funding incentives (or disincentives) but could consider matters of institutional autonomy.

Q 11 unaddressed

About

SENER aspires to present a selection of key economic indicators for the SE region, to aid understanding and inform decision making. It is prepared by independent, non-politically affiliated academics who are part of the South East Network Social and Economic Research (www.senser.ie), an initiative of AIB CFBR and CEDRE at Waterford Institute of Technology School of Business. All opinions expressed are those of the authors , any errors and omissions are the sole responsibility of the authors; please bring them to the attention of the authors.

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